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Re:		**CC:**	

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#55

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April 8, 1999

Office of Fiscal Assistant Secretary
U.S. Department of Treasury
Room 2112
1500 Pennsylvania Avenue, NW
Washington, DC 20220

RE: Advance Notice of Proposed Rulemaking Regarding Possible Regulation of Access to Accounts Through Payment Service Providers

Dear Fiscal Assistant Secretary:

The Credit Union National Association appreciates this opportunity to comment on the Treasury Department's Advance Notice of Proposed Rulemaking concerning whether certain arrangements some financial institutions have with third party payment service providers should be subject to federal regulation. CUNA represents more than 90% of the nation's approximately 11,000 state and federal credit unions.

Before commenting on the advance notice, CUNA would like to take this opportunity to reiterate that credit unions remain committed to helping individuals who do not currently have sufficient access to reasonably priced financial services to obtain such services. In that connection, we want to continue to work with the Treasury Department to enable credit unions to offer electronic transfer accounts (ETA) to recipients of federal benefits under Treasury's implementation of the Debt Collection Improvement Act of 1996.

CUNA's Payments Subcommittee, chaired by Stan Hollen, President and CEO of the Golden One Credit Union, California, is reviewing a number of payments issues as they relate to credit unions, including innovative ways to provide payment services to individuals of modest means. We will share a summary of our report with Treasury when it is completed later this year. In the meantime, CUNA would like to offer its preliminary views on the advance notice.

As we understand these arrangements, some banks and other financial institutions have contracted with private payment service providers, such as check cashers, to allow recipients of electronic federal payments to access the funds through the third party providers. CUNA applauds the Treasury Department for its concern that consumers may be disadvantaged as a result of third party payment arrangements, and we wholeheartedly support the department's efforts to consider how and to what extent consumers' interests in this context should be protected.

15

In general, CUNA is opposed to arrangements in which the receiving financial institution requires the consumer to access federal benefit payments through a third party, such as currency dealers, check cashers, or similar enterprises. Our view is based on the fact that unlike depository institutions, these businesses are not subject to federal supervision or extensive regulation, consumers are not entitled to disclosures from these organizations, and they often charge excessive rates and fees for their services.

Concerning fees, a recent study conducted by the Filene Research Institute Center for Credit Union Research entitled, "Lower Income Americans, Higher Cost Financial Services" looked at the alternative financial sector, including the fees consumers pay for services and products provided by non-traditional financial businesses. It found that only 13 states limit the amount that can be charged for check cashing. "In the states that do not set fee ceilings, fees for cashing low risk payroll checks and government transfer checks generally average 2 to 3%. Thus, a household with $20,00 in take-home pay who consistently uses a (check cashing outlet) would pay about $400 a year to convert payments into cash. Fees for cashing personal checks typically range from 7 to 15%," the study points out.

Under the Treasury's regulation of ETAs, financial institutions that offer such accounts are prohibited from entering into arrangements with third party vendors to provide access to recipients' funds. We believe Treasury also has the authority to require institutions participating in the Direct Deposit program, as agents of the Treasury, to forego such arrangements.

If the Treasury Department determines that it does not have the authority to prohibit third party arrangements with financial institutions acting as the Treasury's agent for the Direct Deposit program, then we urge the department to regulate such agreements. The objectives of such regulation should be to ensure proper consumer disclosures and error resolution procedures, such as those provided under Regulation E, Electronic Fund Transfers Act, and to prevent consumers from being charged excessive fees in order to have access to their government benefit payments.

The Filene Research Institute's study cited above states that one of the reasons individuals use the alternative financial sector may be "because they do not realize the cost differential" between services provided by a traditional institution and an alternative financial enterprise. CUNA and other credit union organizations have developed ongoing consumer education programs to increase the public's awareness of credit unions, which generally have the lowest fees in a market area.

Regardless of whether the Treasury decides to prohibit, regulate or maintain the status quo regarding third party arrangements in connection with consumer access to federal payments, we urge the Treasury to continue its efforts to increase awareness among low-income individuals regarding the benefits of traditional financial institutions. We believe the Treasury's public education campaigns associated with the ETA and Direct Deposit

16.

programs should include information that will help consumers compare the cost of receiving services from the alternative financial sector and from traditional financial institutions, including credit unions.

Thank you for the opportunity to express our views on the advance notice. If you have any questions or comments about our letter, please do not hesitate to give me a call at 202-218-7769.

Sincerely,

Mary Mitchell Dunn

Mary Mitchell Dunn
Associate General Counsel